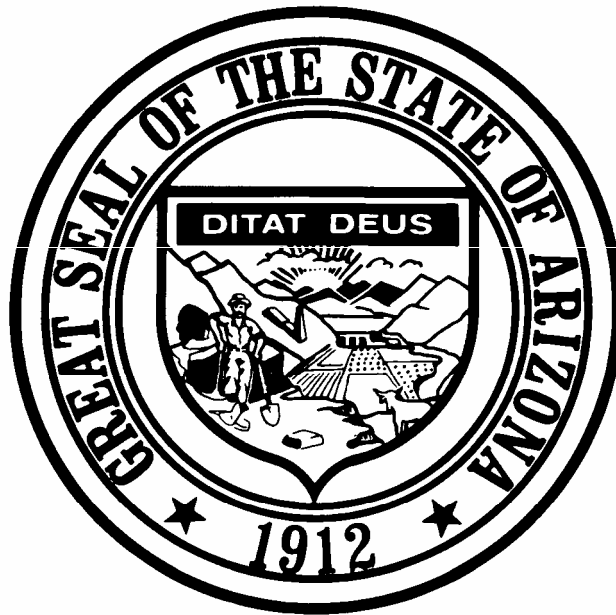


State of Arizona

Unemployment Insurance Tax Policy Manual



**ARIZONA DEPARTMENT OF ECONOMIC SECURITY
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ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:

SUBJECT: TABLE OF CONTENTS

100 PURPOSE AND SCOPE

This section outlines the federal regulations and state statutes that provide the authority for Unemployment Insurance (UI) Tax, including The Social Security Act of 1935 (Public Law 74-271) and The Federal Unemployment Tax Act of 1939 (Public Law 76-379). This section also includes mission statements for the Arizona Department of Economic Security (DES), the Division of Employment and Rehabilitation Services (DERS), and UI Tax. In conclusion, this section provides an overview of the purpose and scope of UI Tax and lists the eight individual units that jointly function to complete the services provided by this program.

200 UNEMPLOYMENT INSURANCE (UI) TAX ADMINISTRATIVE SUPPORT UNIT

This section describes the policies and procedures of the Administrative Support Unit, which is comprised of management and secretarial support for the Unemployment Insurance Tax Central Office.

300 UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER ACCOUNTING UNIT

This section describes the policies and procedures for UI Tax Accounting Technicians to follow for the Federal Unemployment Tax Act (FUTA) certification and in processing employer refunds. In addition, this section provides the mission statement for the Employer Accounting Unit.

400 UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER STATUS UNIT

This section describes the policies and procedures for Status Unit Examiners to follow when making liability determinations. In addition, this section provides the mission statement for the Employer Status Unit. The focus of these policies and procedures are to promote uniformity and timeliness in adhering to federal time lapse criteria for completing liability determinations as outlined by the United States Department of Labor's "UI Performs".

500 UNEMPLOYMENT INSURANCE (UI) TAX COLLECTIONS UNIT

This section describes the policies and procedures used by the UI Tax Collections Unit when requesting all delinquent Wage Reports and collecting tax payments from employers.

600 UNEMPLOYMENT INSURANCE (UI) TAX EXPERIENCE RATING UNIT

This section describes the policies and procedures of the Experience Rating Unit which determines UI tax rates; researches and responds to benefit charge protests; and clears obstructed benefit claims due to missing wages.

700 UNEMPLOYMENT INSURANCE (UI) TAX FIELD AUDIT UNIT

This section describes the policies and procedures used by the UI Tax Field Audit Unit in performance of the United States Department of Labor required employer audits and agency requested investigations.

800 UNEMPLOYMENT INSURANCE (UI) TAX APPEALS UNIT

This section describes the policies and procedures of the Appeals Unit, which provides written Reconsidered Determination responses to employers or employers' representatives appealing a determination made within the Department.

900 UNEMPLOYMENT INSURANCE (UI) TAX IMAGING UNIT

This section describes the policies and procedures of the Imaging Unit, which scans and indexes all documents and wages that come to UI Tax through the Visual Information (VI) System.

1000 TAX PERFORMANCE SYSTEM (TPS) UNIT

The Tax Performance System Unit reviews the internal controls and quality standards for thirteen functions within the Unemployment Insurance Tax Program. These standards have been established by the United States Department of Labor and are detailed in ET Handbook 407 - Tax Performance System.

1100 GLOSSARY

This section includes commonly used acronyms and definitions used throughout the UI Tax Policy Manual.

1200 REFERENCE MATERIALS

This section contains reference materials used by the individual units of the UI Tax Program.

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:

SECTION 100

SUBJECT: PURPOSE AND SCOPE

100 PURPOSE AND SCOPE

This section outlines the federal regulations and state statutes that provide the authority for Unemployment Insurance (UI) Tax, including The Social Security Act of 1935 (Public Law 74-271) and The Federal Unemployment Tax Act of 1939 (Public Law 76-379). This section also includes mission statements for the Arizona Department of Economic Security (DES), the Division of Employment and Rehabilitation Services (DERS), and UI Tax. In conclusion, this section provides an overview of the purpose and scope of the UI Tax Program and lists the eight individual units that jointly function to complete the services provided by this program.

101 THE SOCIAL SECURITY ACT OF 1935

The Social Security Act of 1935 (Public Law 74-271) created the Federal-State Unemployment Compensation (UC) Program. This program has two main objectives:

.01 Compensation

The first objective of the UC Program is to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed.

.02 Economic Stability

Another objective of the UC Program is to help stabilize the economy during recessions.

102 THE FEDERAL UNEMPLOYMENT TAX ACT OF 1939 (Public Law 76-379)

The Federal Unemployment Tax Act (FUTA) and Titles III, IX, and XII of The Social Security Act form the framework of the UI Tax system. FUTA imposes a 6.2% tax rate on the first \$7,000 in gross wages paid annually by covered employers to each employee. Employers with no delinquent federal loans, who pay state unemployment taxes on time, receive a 5.4% credit against the 6.2% federal unemployment tax rate.

Federal unemployment taxes finance half of the Federal-State Extended Benefits (EB) Program, and a federal account for state loans. Individual states finance their own programs and half of the EB program.

103 BASIC UNEMPLOYMENT LAWS AND REGULATIONS

The following basic unemployment laws and regulations provide the authority for the policies set forth in this document:

❖	A.R.S. § 23-601	Declaration of Policy
❖	A.R.S. § 23-603	Agricultural Labor; definitions
❖	A.R.S. § 23-605	Base Period
❖	A.R.S. § 23-606	Base Period Employer
❖	A.R.S. § 23-607	Base Period Wages
❖	A.R.S. § 23-608	Benefits
❖	A.R.S. § 23-610	Calendar Quarter
❖	A.R.S. § 23-612	Contributions
❖	A.R.S. § 23-613	Employer (see Definition of Terms R6-3-1301)
❖	A.R.S. § 23-613.01	Employee Definition (see Employee Defined R6-3-1723; Casual Labor R6-3-1722)
❖	A.R.S. § 23-614	Employing Unit
❖	A.R.S. § 23-617	Exempt Employment (see Exempting Certain Direct Sellers and Income Tax Preparers R6-3-1720; Licensed Real Estate, Insurance, Security and Cemetery Salespersons R6-3-1725)
❖	A.R.S. § 23-622	Wages Defined (see wages R6-3-1705; Tips & Wages R6-3-1726; Meals or Lodging as Wages R6-3-1727; Maintenance & Inspection of Records R6-3-1702; Employer Reports R6-3-1703; Due Dates of Quarterly Reports, Contributions and Payment in Lieu of Contributions R6-3-1704)
❖	A.R.S. § 23-680	Service of Notice (last known address)
❖	A.R.S. § 23-721	Work kept by Employing Unit; Inspection by Commission (see R6-3-1702)
❖	A.R.S. § 23-723	Penalties for failure to file timely or complete contribution & wage reports
❖	A.R.S. § 23-724	Liability determinations; review; finality (see Liability Determinations R6-3-1721)
❖	A.R.S. § 23-725	Employer Coverage; Termination; Election of Coverage
❖	A.R.S. § 23-728	Standard Rate of Contributions
❖	A.R.S. § 23-730	Variation and Adjustment of Contribution Rates (see R6-3-1711)
❖	A.R.S. § 23-733	Transfer of employer experience rating accounts to employer; liability of successor (see Business Transfers R6-3-1713)
❖	A.R.S. § 23-734	Agreement by employee to pay employer contributions void
❖	A.R.S. § 23-735	Requiring or accepting payments from wages to finance employer's contributions
❖	A.R.S. § 23-738	Delinquency assessments; interest and penalties; petition for reassessment

- ❖ A.R.S. § 23-738.01 Deficiency assessment; petition for reassessment
- ❖ A.R.S. § 23-739 Jeopardy assessment; petition for reassessment
- ❖ A.R.S. § 23-742 Adjustment or refund of contributions; limitations
- ❖ A.R.S. § 23-743 Limitations

104 ARIZONA DEPARTMENT OF ECONOMIC SECURITY (DES) MISSION STATEMENT

The Arizona Department of Economic Security (DES) promotes the safety, well-being, and self-sufficiency of children, adults, and families.

105 DIVISION OF EMPLOYMENT AND REHABILITATION SERVICES (DERS) MISSION STATEMENT

The Division of Employment and Rehabilitation Services is dedicated to assisting Arizonans to find and maintain meaningful work and independence and developing a skilled, productive, and resilient workforce.

106 UNEMPLOYMENT INSURANCE (UI) TAX MISSION STATEMENT

The UI Tax Program collects unemployment taxes and wage information to pay benefits to unemployed workers. We promote employers' voluntary tax compliance through fair administration, active enforcement, and prompt, courteous service.

107 UNEMPLOYMENT INSURANCE (UI) TAX PROGRAM

The UI Tax Program is responsible for the collection of Unemployment Insurance (UI) taxes and wage information from Arizona employers. This encompasses:

.01 Primary Responsibilities

- A. Registering businesses as employers in Arizona,
- B. Determining employer tax liability,
- C. Computing employer tax rates,
- D. Processing Quarterly Wage Reports and tax payments, and
- E. Requesting delinquent wage reports and collecting tax payments.

.02 Secondary Responsibilities

The related responsibilities associated with administering the primary duties of UI Tax Program include:

- A. Adjustments to wage reports and tax payments,
- B. Modifications and updates to employer accounts,
- C. Resolution of claimant disputed or misreported wage amounts,

- D. Resolution of employer disputed benefit charges, and
- E. The Employer Appeal Process.

.03 Distribution of Responsibilities

The UI Tax Program performs its responsibilities with an organizational structure comprised of the following eight units, working in conjunction and in accordance with the policies and procedures contained in this manual:

- A. UI Tax Administrative Support Unit
- B. UI Tax Employer Accounting Unit
- C. UI Tax Employer Status Unit
- D. UI Tax Collections Unit
- E. UI Tax Experience Rating Unit
- F. UI Tax Field Audit Unit
- G. UI Tax Appeals Unit
- H. UI Tax Imaging Unit

108 CHANGES IN POLICIES AND PROCEDURES

Manual revisions are scheduled at least quarterly. Between revisions, when policy must be changed, Employment Administration Policy Broadcasts are issued to staff through e-mail.

109 UNIT MANAGERS APPLYING REASONABLE JUDGMENT

Although this manual is written and updated based on the most current federal and state laws and regulations, there may be circumstances that are not specifically addressed. Staff are expected to research any questionable or unusual situations thoroughly, using materials available. When making any decision, staff may then consult with their supervisor to come to a reasonable decision, based on experience and knowledge of the UI Tax Program. When, after diligent research into the circumstances in question and after consultation with the supervisor and the unit manager, a decision cannot be reached, clarification may be requested through e-mail from the Employment Administration Policy & Training Unit Manager.

110 QUESTIONS REGARDING POLICY OR PROCEDURES

All staff requests for technical assistance regarding policy or procedures **that cannot be resolved after elevation to a supervisor and manager** may be submitted to the Policy & Training Unit Manager utilizing program procedures. Such requests for technical assistance must be elevated through e-mail to the Employment Administration Policy & Training Unit Manager.

111 AVAILABILITY OF MANUAL MATERIAL

The UI Tax Policy Manual (effective 07/01/2005) is used to administer the UI Tax Program. The UI Tax Online Policy Manual is available to internal users through Public Folders at DERS Policy.

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 200

**SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX ADMINISTRATIVE
SUPPORT UNIT**

200 UNEMPLOYMENT INSURANCE (UI) TAX ADMINISTRATIVE SUPPORT UNIT

This section describes the policies and procedures of the Administrative Support Unit, which is comprised of management and secretarial support for the Unemployment Insurance Tax Central Office.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 300

SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER
ACCOUNTING UNIT

300 UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER ACCOUNTING UNIT

This section describes the policies and procedures for UI Tax Accounting Technicians to follow for the Federal Unemployment Tax Act (FUTA) certification and procedures used in processing employer refunds. In addition, this section provides the mission statement for the Employer Accounting Unit.

301 UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER ACCOUNTING UNIT MISSION STATEMENT

The Unemployment Tax (UI) Employer Accounting Unit will assure that taxes are deposited promptly and employer's transactions are processed in an accurate and timely manner through a system of internal accounting controls.

302 FEDERAL UNEMPLOYMENT TAX ACT OF 1939 (Public Law 76-379)

The Federal Unemployment Tax Act (FUTA) is the law providing Federal Unemployment Tax administered by the Internal Revenue Service (IRS) for the Department of Labor (DOL), to provide funds for administration of state unemployment insurance programs.

The Federal Unemployment Tax rate is 6.2%. Employers who pay their Arizona UI taxes timely receive a 5.4% credit on their FUTA tax. FUTA Certification provides a verification process for the IRS, UI Tax, and employers to ensure employer compliance and accurate reporting for Federal and Arizona unemployment taxes.

.01 The FUTA Certification Process

The purposes of performing the certification process for employers and the IRS are as follows.

- A. To determine that employers filing 940 FUTA reports are registered in Arizona and reporting and paying the same wages shown on the 940 FUTA report.
- B. To provide individual employers with certification for the IRS of Arizona UI tax amounts paid for specified calendar years and the timeliness of payments.
- C. The IRS identifies employers who filed their state unemployment taxes, but did not report federal unemployment taxes.

- D. The IRS verifies conformity between the employer's FUTA reports and Arizona UI Tax and Wage reports.
- E. Assures accuracy for the IRS in collecting the correct percentage of the employer's taxable wages for FUTA.

.02 FUTA Requirements For The UI Tax Program

The UI Tax Program is required to perform a FUTA certification process, which is initiated by the 940 Extract Tape received from the IRS each year.

- A. DTS Operations runs the tape against the information on the Employer Account Master and Transaction (EAMT) screen on TEAM to determine matches according to the following:
 - 1. The Federal Employer Identification Number (FEIN),
 - 2. The total and taxable wages, and
 - 3. The dates that taxes were paid.
- B. The possible results of the match are as follows:
 - 1. Employers have filed a FUTA report with the IRS and have filed the required wage reports with the UI Tax Program.
 - 2. Employers have filed a FUTA report with the IRS, but have NOT filed the required wage reports with the UI Tax Program.
 - 3. Employers have filed the required wage reports with the UI Tax Program, but have NOT filed a FUTA report with the IRS.
- C. It is the employer's responsibility to locate any discrepancy and make the necessary adjustments. The UI Tax Employer Accounting Unit may instruct the employer on what to look for and will provide further assistance, only if requested.

.03 Identifying The Correct Arizona Employer

In order to make proper FUTA certification for wages reported and taxes paid, it is critical that the correct employer is identified. This is accomplished by using the Federal Cross Reference (FXRF) Screen, which enables the Employer Accounting Unit to locate the Arizona employer associated with a specific Federal Employer Identification Number (FEIN).

04. Automated IRS Certification

Every October the UI Tax Central Office Manager receives magnetic tapes (940), which DTS runs to match IRS records against UI Tax records to disclose discrepancies in employer reporting between UI Tax and FUTA. The annual IRS FUTA certifications must be processed within ninety days of receipt in the Central Office. The two tapes are as follows.

- A. The 940 Tape is the primary source of the certification information as it provides the IRS with Arizona UI reporting information for the subject calendar year. A hard copy listing is provided with the tape and retained by UI Tax to answer possible questions.
- B. The FUTA State Register of Potential Non-Federal Filers (PNFF) tape provides the IRS with employers who are registered with Arizona UI and were not found on the 940 tape provided by the IRS. A hard copy listing is provided with the tape and retained by UI Tax to answer possible questions.

05. System Usage and Processing for Manual Certifications

Manual FUTA certifications are performed by Accounting Technicians when written or telephone requests are received from employers or the IRS. Employers and the IRS are the only valid sources to request FUTA certification. All requests for FUTA certifications must be processed within forty-five working days of receipt in the Employer Accounting Unit.

Each accounting technician will maintain a daily log of FUTA certification requests received using the Computerized Assessment, Reporting and Tracking System (CART) at website <http://10.107.60.184/CART/> OR <http://DERSIS02/CART/>.

If a certification is requested for a period for which data is no longer accessible through UI Tax screens, a History File for the account will need to be requested for Program VJTEI014, using the ED-045 process.

Manual certifications are not to be processed on employer accounts, which have appeals pending or assessments that are not final.

- A. Manual FUTA certifications for data entered in TEAM will be performed using the FUTA Certification Screen (FUTA).
- B. It may be necessary to obtain data for a certification from TEAM. When both files are required, use IRS form 940B instead of TEAM or screen prints.
- C. Employers request FUTA certification by contacting the agency either by phone or in writing. Employer certification requests take precedence over requests received from the IRS. The Employer Accounting Unit will process these requests as follows:

1. In responding to requests by telephone, it is important that the confidentiality standards outlined below are followed:
 - a. If an employer wants to verify amounts on the telephone, accounting technicians can verify only the figures given to the unit by the employer.
 - b. The accounting technician will not provide amounts paid that are showing on the TEAM system.
 - c. Telephone requests for certification must be mailed to the employer's address of record, identified on the Employer Base Information Inquiry screen.
 2. Written requests for certification must be signed by a business owner or an authorized agent of the employer shown in the UI Tax files.
 3. Employer's accountants must furnish a power of attorney prior to being provided any information regarding the employer's account. A copy of the power of attorney may be in the employer's Visual Information file. The federal form for power of attorney is acceptable.
 4. An employer requesting certification in person must show valid identification.
- D. Revised requests are usually received when there is a change to the information submitted on the employer's quarterly wage report. Before the revised certification can be processed, an adjustment to the wage report must be performed. After the adjustment is processed, perform the certification process in the same manner as an original certification using the adjusted report information.
- E. IRS requests for FUTA certification are processed as follows:
1. IRS will request a manual certification when information obtained from an Arizona employer does not agree with a certification provided by UI Tax.
 2. IRS certifications requested by telephone are processed when the requestor is the Ogden, Utah agent. If any other IRS office requests information, a supervisor's approval is required. **Be sure the IRS agent you are talking to is on the current list of authorized IRS agents.**
 3. Written requests from the IRS are processed within forty-five working days.

4. If an adjustment has been processed, use IRS Form 940B, "Request for Verification of Credit Information Shown on Form 940" in place of the TEAM screen print.
- F. Hand certifications are required when any of the following circumstances occur on an employer's account:
1. If the data displayed on the FUTA screen is not correct.
 2. When a History File on the account is requested because the required data has been purged from the UI Tax screens.
- G. Re-Certifications are required when any of the following occurs on an employer's account:
1. If there is a difference between the wages reported to UI Tax and the wages reported to IRS, the accounting technician must perform research to determine if there was a status change on the account during the calendar year for which re-certification is requested. The following are possible sources of a discrepancy in the wages reported to UI Tax and those reported to the IRS:
 - a. Excess wages not taken.
 - b. Less than four quarters shown in the UI Tax system.
 - c. Wages reported as exempt on the 940 form.
 2. It is possible that the wages reported may be divided between predecessor and successor employers.
 3. After any necessary adjustments are made to an employer's account, the re-certification screen prints are sent to the employer.

303 EMPLOYER REFUND POLICIES AND PROCEDURES

The focus of this section is the policy and procedures used by the UI Tax Employer Accounting Unit to notify and refund accounts payable balances. These balances occur when an employer overpays an amount due or an adjustment is made to an account, resulting in less money owed than the amount paid by the employer. The Employer Accounting Unit Manager will also request warrant refunds for monies payable on accounts determined to be non-liaible/exempt, suspended, or closed.

01 Statutes and Regulations

The UI Tax Employer Accounting Unit must adhere to the following statutes and regulations when processing refunds:

A. A.R.S. § 23-742. Adjustment or Refund of Contribution; Limitation

Not later than three years after the date on which any contribution or interest on a contribution becomes due, an employer who has paid the contribution or interest may apply for an adjustment of the contribution or interest in connection with subsequent contribution payments, or for a refund of the contribution or interest in the event the adjustment cannot be made. If the department finds the contribution or interest, or any part of the contribution or interest, was erroneously collected, it shall allow the employer to make an adjustment, without interest, in connection with subsequent contribution payments, or if the adjustment cannot be made, the department shall refund the amount, without interest, from the fund into which payments were made. For like cause and within the same period, the adjustment or refund may be made on the initiative of the department.

Any refund or adjustment of contributions erroneously paid shall be reduced by the sum of any benefit overpayments which are attributable to the wages on which contributions are to be refunded or adjusted, except that a reduction shall not be made if it is shown to the satisfaction of the department that such contributions were required to be paid due to the fault, mistake, or omission of the department.

B. R6-3-1718. Employer Refunds

If contribution overpayment has been established, within the statutory period provided by section A.R.S. § 23-742, the Department may credit the employing unit's account or, in its discretion, refund the overpayment provided the employing unit has no report delinquency or balance due on its account.

When an overpayment to a claimant has been established as provided in A.R.S. § 23-742, and a reimbursing employer has made payment in lieu of contributions for the benefits overpaid, the Department shall give the employer credit against the employer's next quarterly statement of account of an amount not to exceed the amount recovered by the fund through offset or repayment. If the benefit overpayment was attributable to Department fault, mistake, or omission, the Department shall give the reimbursing employer a credit for the amount of the benefit overpayment, regardless of whether the overpayment has been repaid. The Department shall allow a reimbursing employer a refund of any credit balance remaining in the employer's account after the Department determines that there will be no further charges to the account.

The Department shall issue a warrant drawn on the Unemployment Compensation Fund -- Clearing Account for any employer refund.

Historical Note - Former Regulation 40-16; Amended effective March 11, 1977 (Supp. 77-2). Amended subsection (A) effective June 17, 1985 (Supp. 85-3). Amended effective December 20, 1995 (Supp. 95-4).

02 Employer Notification

Effective the first quarter of 2005, rated employers will be notified quarterly by the **Tax and Wage Report (UC-018)** at <http://www.de.state.az.us/esa/pdf/uc018b.pdf> of an existing credit balance.

- A. When notified of a credit balance, the employer may do the following:
 - 1. Use the credit against taxes owed.
 - 2. Provide a written request for a refund.
- B. Written requests must be received from the following sources for the account to be eligible for refund:
 - 1. Sent to the Employer's Accounting Unit by the employer.
 - 2. Sent to the Employer's Accounting Unit by the employer's accounting firm.
 - 3. Sent to the Employer's Accounting Unit by the employer's payroll service.
 - 4. Sent to the Employer's Accounting Unit by another unit within UI Tax including a route slip signed by the Unit Manager, or
 - 5. Sent to the Employer's Accounting Unit by a Field Auditor, Collector or Tax Analyst as the result of an adjustment or appeal. Those requests from the Appeals Unit will have first priority.

03. Tax Employer Accounting Multi System (TEAM)

For each employer account with a credit balance, the Tax Employer Accounting Multi System (TEAM) provides the following functionality:

- 1. Tracks amounts in accounts payable,
- 2. Produces a refund warrant,
- 3. Tracks the refund warrant,
- 4. Allows the Department of Labor (DOL) Accounting (ESA Budget and Planning) to clear them when paid. DOL Accounting will also be able to do the following:
 - a. Void warrants when payables are reversed.
 - b. Void warrants not cashed within a prescribed time period.
- 5. Prevents refunds during specified periods as follows:

- a. Refunds are not issued on any account during the period when employers have been notified by the issuance of a quarterly wage report of existing credit balances.
- b. Refunds are not issued until the bulk of the quarterly reports have been filed.

.04 Refund Criteria

The UI Tax Employer Accounting Unit processes employer refund requests based on the following criteria:

- A. Written request from the employer,
- B. Exempt Account program run,
- C. Authorization by a Unit Manager, or
- D. Approval of the Chief of Tax.
- E. Refunds are not issued on accounts until the following has occurred:
 - 1. The payment creating the payable amount has cleared the bank, and
 - 2. A minimum of ninety days has elapsed since the payable was received.

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 400

SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER STATUS UNIT

400 UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER STATUS UNIT

The UI Tax status unit examiners are responsible for making employer liability determinations. This section describes the policies and procedures for Status Unit Examiners to follow when making liability determinations. In addition, this section provides the mission statement for the Unemployment Insurance (UI) Tax Employer Status Unit. The focus of these policies and procedures are to promote uniformity and timeliness in adhering to federal time lapse criteria for completing liability determinations as outlined by the United States Department of Labor's "UI Performs".

401 UNEMPLOYMENT INSURANCE (UI) TAX EMPLOYER STATUS UNIT MISSION STATEMENT

The Unemployment Tax (UI) Employer Status Unit determines employer liability, identifies and registers potentially new employers, maintains employer account status, and provides information regarding employer responsibility.

402 UI PERFORMS

The United States Department of Labor's "UI Performs" is a comprehensive performance system in which state and federal government work together as partners to strengthen the UI system. The Tax Performance System, Benefit Accuracy Measurement, and Performance Measurement Review are all a part of UI Performs. The following sections devoted to the UI Tax Status Unit, focus on adhering to the UI Performs' objective for federal standards of timely completion of new status determinations and must be adhered to as follows:

The employer status unit must complete at least 70% of new status determinations within ninety days of the last day of the quarter in which the employer was determined to have met a threshold of liability under state law.

403 DETERMINING EMPLOYER LIABILITY

For any new business owner filing an *Arizona Joint Tax Application* (UC001), a determination of tax liability or exemption must be made by the UI Tax Employer Status Unit. If the employer is determined liable, an employer account must be created.

.01 Arizona Joint Tax Application (UC001) at
http://www.revenue.state.az.us/2004/74-4002_fillable.pdf

The process for determining liability begins once a UC001 is received by the UI Tax Employer Status Unit using one of the following three methods:

A. The Arizona Department of Revenue (ADOR)

A new business owner can submit a UC001 to the Arizona Department of Revenue (ADOR). The information is entered into the Employer Registration System (ERS) by ADOR, which results in the Arizona Joint Tax Application being sent to UI Tax electronically.

B. New Business Owner

A new business owner can submit a UC001 directly to UI Tax. This application will not interface through ERS. The application will be entered into TEAM by a status examiner.

C. Field Auditor

A field auditor who has made a determination of employer liability for a new business owner will submit the UC001 and **Determination of Unemployment Liability (UC-16)** for processing by the UI Tax Employer Status Unit. The field auditor will submit any assessments for unpaid taxes to the UI Employer Accounting Unit for processing.

.02 RESEARCH

Once the status examiner has received the application, it must be reviewed for completeness and accuracy. The following research must be completed to assure accuracy:

A. Tax Employer Accounting Multi System (TEAM)

The first step in establishing a new account is to research the application on the **Tax Employer Accounting Multi System (TEAM)** to verify that the employer is not already registered with the Department. This can be done on the Federal Cross Reference screen (FXRF) by running a search on the federal ID number for the business in question. A search by name and address must also be done on Employer Search Menu screen (ESMU).

1. When an account is found on TEAM, the status examiner will compare this information to the information provided on the UC001. If the information differs, the examiner then compares the two application dates.
 - a. If the new UC001 predates the information on file, no action is required.
 - b. If the new UC001 has a more current date, the employer's account is revised. Once any revisions are completed, the application is scanned into the employer's documentation record in the Visual Info (VI) System.

2. When there is no existing account, the examiner will review the UC001 to determine employer liability. If the employer has not provided enough information to determine liability, see Section [204 DETERMINING EMPLOYER EXEMPTION](#).

B. Visual Info (VI) System

The VI system should be researched when a closed or suspended account exists on TEAM. The VI system may contain employer information not listed on TEAM; i. e., contact names and phone numbers. If the employer has not met the conditions specified under A.R.S. § 23-725, suspended employer accounts should be reopened instead of creating a new account.

C. Arizona Corporation Commission (AZCC)

The Arizona Corporation Commission (AZCC) must be researched to verify the registered legal entity or limited liability company. **The company name, date of incorporation, and the corporate type (profit or non-profit) entered on TEAM must exactly match the information in AZCC.**

D. UC-001 Tracking

The UC-001 Tracking System will show any documents that have been previously processed or sent to a field audit office.

E. Employer Registration System (ERS)

The ERS is an application processing system and should be researched to determine if there have been any additional applications submitted by the employer and processed through this system. For instructions on system usage refer the ERS Guide available in the public folders.

.03 THE CONCEPTS OF EMPLOYER LIABILITY

It is important to understand the following basic concepts of employer liability when making a liability determination.

A. Employer

Statutory authority A.R. S. § 23-613 defines an employer as all inclusive of the following information. In Arizona, liable employers pay unemployment taxes on the first \$7000 in wages paid to each employee in a calendar year. An employer can be an individual, partnership, corporation, or any other legal entity for which a worker performs a service. A new business owner qualifies as an employer if any of the following conditions are met:

1. Pays wages of at least \$1500 during a calendar quarter.
2. Employs at least one worker for some part of a day in each of twenty different weeks in a calendar year.
3. Acquires the business or part of the business of an employer subject to unemployment taxes.
4. Is required to pay Federal Unemployment Tax because the business owner employs individuals in another state(s) for any other reason.
5. Owns or controls two or more businesses in Arizona which together meet any of the other conditions described here.
6. Pays domestic workers at least \$1000 cash wages in a calendar quarter.
7. Pays agricultural workers at least \$20,000 cash wages in a calendar quarter.
8. Employs at least ten agricultural workers for some part of a day in each of twenty different weeks in a calendar year.
9. Is a nonprofit organization exempt under section 501(c)(3) of the Internal Revenue Code, and employs four or more workers for some part of a day in each of twenty different weeks in a calendar year.
10. Voluntarily elects to provide unemployment coverage to his or her workers even though it is not required.
11. Owns or controls a leasing or temporary services business that leases or provides workers to other businesses.
12. Is an Indian tribe including any subdivision, subsidiary, or business enterprise wholly owned by the Indian tribe.

B. Employment Relationship

The relationship between a business owner and a worker determines whether that worker is an employee. An employment relationship exists when a worker performs services that are subject to control, or right to control, whether or not the employer exercises this control.

The services may be performed on a full-time, part-time, temporary, seasonal, or probationary basis. Services may be performed on or off the premises of the business or in an employee's own home. An employee can work in more than one state. The following guidelines will help to report wages to the appropriate state:

1. If an employee works **only** in Arizona, report the wages and pay taxes to Arizona, whether or not the employer's business is located in Arizona.
2. If an employee works **only** in another state, report the wages and pay taxes to that other state, even if the business is located in Arizona.
3. If an employee works **primarily** in Arizona and only **occasionally** in another state, report the wages and pay taxes to Arizona whether or not the employer's business is located in Arizona.
4. If an employee works **equally** in two or more states, report the wages and pay taxes to the state that contains the employee's base of operations, or the state from which the services are directed and controlled (*usually the state in which the employer and business is located*).

C. Exempt Employment

Employees are included under the unemployment insurance law, unless their services are specifically excluded. If a service is excluded, it is not counted in determining employer liability. The following services should not be included on the quarterly wage reports:

1. Insurance, real estate, cemetery, and securities salespersons paid solely by commission.
2. A sole proprietor's spouse, parents, or children under 21 years of age.
3. In a partnership the relationship must extend to both/all partners. For example, parents of brothers in a partnership are exempt when the partnership consists only of those brothers. Parents of a partner in other partnerships are not exempt.
4. Students in an academic work experience program performing services as part of the school's academic program.
5. Income tax preparers paid solely by commission.
6. Direct sellers of consumer goods, paid solely by commission, who solicit orders or make sales in person in the customer's home.
7. Students in regular attendance at the educational institution that employs them, or spouses of students, if the spouses are employed as part of a financial assistance program for the students.

8. Individuals under 18 years of age who deliver or distribute newspapers or shopping news to customers.
9. Patients of a hospital performing services for the hospital.
10. Student nurses performing services for a hospital or a nurse's training school or an intern employed by a hospital.
11. Individuals hired for a one-time, short-term job, generally for less than thirteen days in a calendar quarter, when there is no intent for continuing employment.
12. Service performed for a non-profit organization if payment for the service is less than \$50 in a calendar quarter.
13. Other services described in A.R.S. § 23-613.01 and A.R.S. § 23-617.

D. Exempt Wages

All payments to employees for services are wages and must be reported (*before deductions*) on the Quarterly Wage Report. Unless specifically excluded by law, employers must report salaries, commissions, bonuses, fees, fringe benefits, sick pay, deferred compensation, tips reported to you by your employees, and the cash value of payments in any medium other than cash, *i. e., gifts*. Employer contributions (*to the extent elected by the employee*) to 401(k) plans are also wages. The following payments, excluded by law, should **not** be reported on the quarterly wage report:

1. Payments made to a plan for insurance (*or payments from a plan to employees or dependents*) for workers' compensation, medical or hospitalization expenses, or death.
2. A domestic or agricultural employee's share of FICA paid by the employer.
3. Long-term disability (*after 6 months*).
4. Payments made to a retired employee under certain retirement plans or payments made for an employee to a retirement plan.
5. Moving expenses reimbursed to employees where there is an allowable corresponding deduction under the Internal Revenue Code.
6. Payments made to a group legal services plan or the value of legal services for the employee or his/her dependents when there is an allowable corresponding deduction under the Internal Revenue Code.

7. Payments made for dependent care assistance, *such as childcare*, to the extent excludable from the employee's federal income tax.
8. Meals and lodging provided for the convenience of the employer.
9. Survivor benefits.
10. Scholarships and fellowship grants provided by non-profit or governmental employers to the extent allowed under the Internal Revenue Code.
11. Tuition reduction to employees of educational institutions.
12. Services provided to employees, at no additional cost, such as free stand-by flights to airline employees.
13. Employee discounts up to 20%.
14. Working condition fringe benefits which, if provided by the worker, would be deductible business expenses, *e.g., the value of a company car used for business purposes*.
15. Fringe benefits of minimal or insignificant value such as complementary coffee and tea provided by the employer for his/her employees.
16. On-sight athletic facilities provided for employees.
17. Payments for agricultural labor in any medium other than cash.
18. Payments for services not in the course of the trade or business in any medium other than cash.
19. Amounts excluded from the definition of wages for purposes of the Federal Unemployment Tax Act (FUTA).

.04 Determining The Coverage Start Date

The coverage start date is the earliest date in the calendar year in which liability was met and from which an employer must begin to report wages. Coverage start dates differ depending upon the type of employing unit and the type of liability criteria met. Use the following guide to determine start dates by selecting the applicable item below and following the instructions:

A. Weeks/Wages

1. Sole Proprietorship/Partnership – The date employees were first hired or the first day of the calendar year in which liability was met, whichever is later.

2. Corporation – A corporation’s start date can be determined by whichever of the following occurs later:
 - a. The date of incorporation.
 - b. The first day of the quarter in which wages of \$1500 or more are first paid.
 - c. The first of the calendar year in which liability is established.
3. Limited Liability Company – Since a non-member manager, who is a natural person, is presumed in employment beginning with the file date of the Articles of Organization, it is possible to have twenty weeks of employment without wages being paid. The start date for a limited liability corporation is to be the first day in the calendar quarter in which wages were first paid.
4. Common Ownership or Control – If more than 50% of two employing units are commonly owned or controlled, the following two conditions may be used to determine liability:
 - a. If one employing unit is liable, then the other unit is liable as soon as employees are hired.
 - b. If neither unit is liable and employees have been hired, add the wages and weeks of employment (counting each calendar week only once) for all employees to determine if liability has been met.
5. Non-Profit Organization - The date employees were first hired or the first day of the calendar year in which liability was met, whichever is later.
6. Governmental Entities - The date employees are first hired.
7. FUTA - The date employees are first hired in Arizona. In the case of a corporate officer performing services in Arizona, the date the services began in Arizona or the first day of the calendar quarter in which wages are paid to a corporate officer in Arizona, whichever is later.
8. Voluntary Election – An employing unit that does not meet liability may elect coverage, or an employing unit may elect to cover exempt services. The start date is the date employees were first hired.
9. Ownership Change/Liable Portion Transfer – The date the business was acquired in whole or in part.

.05 Determining The Liability Established Date

The liability established date is the earliest date in a calendar year when an employing unit meets its liability criteria. Although liability may not be established until later in the calendar year, the employer is liable for the entire calendar year and must submit wage reports for all the applicable quarters. The purpose of the liability established date is as follows:

- A. The liability established date determines when an employer must begin to submit wage reports.
- B. The liability established date determines when a penalty is assessed if the reports are late.
- C. The liability established date determines when interest begins to accrue if payment is late. If more than one liability criteria is met, use the following guide to determine the correct date.
 - 1. Successorship is always used as the basis when all or a liable portion of a business is acquired by a successor, whether or not any other criteria was met. The following procedures **must** be followed by the examiner when processing the acquisition of a business.
 - a. Successor determinations can be made from either the **Arizona Joint Tax Application (UC001)** at http://www.revenue.state.az.us/2004/74-4002_fillable.pdf that shows an acquisition of a business or the **Report of Change (UC-514)** at <http://www.azdes.gov/esa/pdf/chng.f.pdf> that shows the sale of a business.
 - (1) When an application is received showing the acquisition of a business, after verifying that the predecessor account is active, the Status Examiner will:
 - (a) Research the FEIN to ensure there are no reports in suspense.
 - (b) If applicable, research the Arizona Corporation Commission to verify the date of incorporation and legal name.
 - (c) After this initial research is completed, if the predecessor employer has not submitted a Report of Change, the Examiner **must** contact the former owner to verify the sale and complete the following required UC-514 documentation:

- i. Effective date of the sale of the business.
 - ii. Name of new owner/operator.
 - iii. Name/title of the person who provided the information for both the predecessor and successor to verify that there is mutual agreement regarding the business transfer and date.
 - iv. If the Status Examiner contacts only one person, in addition to that individual's full name and title, there must be documentation of their authority to speak on behalf of both employers.
- (d) If the account is closed, the Status Examiner will:
 - i. Determine if the account can be reopened for the ownership change (Ref: Rule 6-3-1713 A.3).
 - ii. Complete the paperwork to reopen the account.
 - iii. Forward the documentation to the Experience Rating Unit for verification of the correct tax rate.
 - iv. If the account cannot be reopened, a new account must be established for the employer.
- (2) When a Report of Change Notice or letter is received from a predecessor employer indicating a sale of business, the Status Examiner must determine if the successor employer is established as a new employer through research in the TEAM system.
 - (a) When an account already exists in Team, review the **start date** of the account to determine if it **preceded the acquisition** or started at the same time.

- (i) When the date is the **same as the sale** of the former business, the Examiner must complete the paperwork to process the **ownership change** and **close the new employer account as established in error**.
 - (ii). When the start date of the account is **prior to the sale**, the Examiner must complete the paperwork to **document a transfer**.
 - (b) If the Examiner **cannot find a match** in TEAM or in the ERS Pending Application file or UC001 Tracking System that indicates the successor has submitted a UC001, the Status Examiner will mark the UC-514 with a note requesting a UC001 be mailed to the new owner/operator. The UC-514 is then placed in the Examiner's Status basket for the clerical unit to process.
 - 2. If more than one criteria is met, that which was first met is used as the basis for coverage.
- D. The following guide determines the correct liability established date for each of the coverage criteria:
- 1. Successorship – Use the date the organization, trade or business, or liable portion, was acquired by the successor. This will be the calendar day following the day the predecessor's business ceased operating either in whole or in part.
 - 2. Weeks/Wages
 - a. For general coverage, agricultural and nonprofit organizations use the Saturday of the twentieth week of requisite employment.
 - b. If the date cannot be determined, use the first day of the third month of the quarter in which the requisite wages were paid or the last day of the quarter.
 - 3. FUTA – Use the date employees first begin to work in Arizona.
 - 4. Common Ownership or Control – The date employees were first hired or the liability established date of the commonly owned or controlled employer, whichever is later.

5. Governmental Entities – The date employees were first hired.
6. Corporations – Because the services of corporate officers are defined as employment, requisite employment begins with the date of incorporation. Corporations may become liable based on the following criteria.
 - a. As soon as there are wages paid of \$1500 or more,
 - b. At the end of the twentieth week, or
 - c. Use the date of acquisition when coverage is based on successorship.
7. Limited Liability Company – Use the earliest of the following:
 - a. The first day of the third month of the quarter, or
 - b. The day \$1500 is paid, or
 - c. The last day of the quarter.
8. Employing units engaged in more than one type of business activity that involves a combination of activities must meet coverage requirements as follows.
 - a. If liability is based on general business activity, any domestic or agricultural activity must meet coverage requirements on its own.
 - b. If liability is based on agricultural activity any general business activity is immediately liable based on FUTA criteria.
 - c. If liability is based on domestic employment, any general or agricultural activity must meet coverage based on weeks/wages for that coverage type as follows.
 - (1) General coverage liability is \$1500 in wages in a calendar quarter or the employment of one individual for any portion of a day for twenty weeks in a calendar year.
 - (2) Agricultural liability is \$20,000 in wages in a calendar quarter or the employment of ten or more individuals for any portion of a day for twenty weeks in a calendar year.

.06 ENTERING A NEW EMPLOYER ACCOUNT INTO THE TEAM SYSTEM

The process for establishing new employer accounts is complete once the application has been researched, reviewed for completeness and accuracy, a liability determination has been made, and the application has been entered into the TEAM system. This entire process must be completed within the ninety day time frame set forth by the UI Performs objective for federal time lapse.

For instructions on entering a new employer into the Team System refer to the Team Manual. An online manual will be available in the public folders as a future enhancement.

404 DETERMINING EMPLOYER EXEMPTION

Please refer to DETERMINING EMPLOYER LIABILITY and the Employment Registration System for exempt employer criteria.

.01 New Exempt Employer Account

When an application has been received from a new employer that does not provide enough information to determine employer liability, the following procedures should be used:

- A. Set up an exempt account.
- B. Set a follow-up date, using the first day of the next month.
- C. The Monthly Exempt Report Request will generate a follow-up letter asking the employer if they have met liability requirements.
- D. This process repeats itself until the employer meets the liability criteria or notifies the Department that the business has ceased to operate.

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 500

SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX COLLECTIONS UNIT

500 UNEMPLOYMENT INSURANCE (UI) TAX COLLECTIONS UNIT

This section describes the policies and procedures for UI Tax Collectors to use when collecting all delinquent Wage Reports and tax payments from employers.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 600

SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX EXPERIENCE RATING
UNIT

600 UNEMPLOYMENT INSURANCE (UI) TAX EXPERIENCE RATING UNIT

This section describes the policies and procedures of the Experience Rating Unit which determines UI tax rates; researches and responds to benefit charge protests; and clears obstructed benefit claims due to missing wages.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 700

SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX FIELD AUDIT UNIT

700 UNEMPLOYMENT INSURANCE (UI) TAX FIELD AUDIT UNIT

This section describes the policies and procedures for UI Tax Auditors to use performing the United States Department of Labor required employer audits.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 800

SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX APPEALS UNIT

800 UNEMPLOYMENT INSURANCE (UI) TAX FIELD APPEALS UNIT

This section describes the policies and procedures of the Appeals Unit, which provides written Reconsidered Determination responses to employers or employers' representatives appealing a determination made within the Department.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 900

SUBJECT: UNEMPLOYMENT INSURANCE (UI) TAX IMAGING UNIT

900 UNEMPLOYMENT INSURANCE (UI) TAX IMAGING UNIT

This section describes the policies and procedures of the Imaging Unit, which scans and indexes all documents and wages that come to UI Tax through the Visual Information (VI) System.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 1000

SUBJECT: TAX PERFORMANCE SYSTEM (TPS) UNIT

1000 TAX PERFORMANCE SYSTEM (TPS) UNIT

The Tax Performance System (TPS) Unit reviews the internal controls and quality standards for thirteen functions within the Unemployment Insurance Tax Program. These standards have been established by the United States Department of Labor and are detailed in ET Handbook 407 - Tax Performance System.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 1100

SUBJECT: GLOSSARY

1100 GLOSSARY

This section contains commonly used acronyms and definitions used throughout the UI Tax Policy Manual.

FUTURE ENHANCEMENT

ARIZONA DEPARTMENT OF ECONOMIC SECURITY



UNEMPLOYMENT INSURANCE (UI) TAX

PROGRAM INSTRUCTIONS:
SECTION 1200

SUBJECT: RESEARCH MATERIALS

1200 REFERENCE MATERIALS

This section contains reference materials used by the individual units of the UI Tax Program.

FUTURE ENHANCEMENT